

<b>Subject:</b>	<b>i360: Covid-19 Support</b>		
<b>Date of Meeting:</b>	<b>24<sup>th</sup> June 2020</b>		
<b>Report of:</b>	<b>Executive Director Economy, Environment &amp; Culture</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Max Woodford</b>	<b>Tel: 01273 291666</b>
	<b>Email:</b>	<b><a href="mailto:max.woodford@brighton-hove.gov.uk">max.woodford@brighton-hove.gov.uk</a></b>	
<b>Ward(s) affected:</b>	<b>All</b>		

**FOR GENERAL RELEASE**

**1. PURPOSE OF REPORT AND POLICY CONTEXT**

- 1.1 This report proposes measures necessary to support the continued working cashflow of the i360 during the Covid-19 pandemic, which is having a negative impact on the entire visitor economy. The report identifies the need to support the i360 a means to preventing future additional costs to the city council in the future.

**2. RECOMMENDATIONS:**

That the Committee:

- 2.1 Agrees to defer £150,000 from the December 2019 payment in addition to the £880,304.25 which the Policy & Resources Committee agreed to defer on 5<sup>th</sup> December 2019, on the same terms;
- 2.2 Agrees to defer the loan payments due in June and December 2020, but request that any funds over and above the cashflow necessary to keep the attraction operational are paid to the Council in part payment of the sums owed;
- 2.3 Agrees to establish a pattern of regular meetings and information provision between the i360 management and board and the i360 Member Working Group, as set out at section 3.14, below;
- 2.4 Notes that officers have not progressed the loan restructure or completed the novation of the Coast to Capital Local Enterprise Partnership (LEP) loan agreed at Policy & Resources Committee in December 2019 due to the impact of the Covid-19 pandemic on the i360 and that they will progress these once the attraction is able to reopen.

**3. CONTEXT/ BACKGROUND INFORMATION**

- 3.1 The i360 is a key part of the city's visitor economy, having carried well over one million visitors. A report to the December 2019 P&R Committee set out the strong economic and social impact the Brighton i360 has had, already contributing £89.6 million to the Brighton & Hove economy. By the time the £36.2 million loan from the city council and the £4.0 million LEP loan, that were

invested to fund its construction are repaid, the i360 will have contributed £640 million to the city's economy. This represents a return of £15.90 for every £1.00 of public sector investment. It has also generated direct additional income for the council which has been or will be reinvested in the seafront; in particular in the landscaping of the council owned land around the i360, contributions towards the refurbishment of the Madeira Terraces and festoon lighting along the seafront.

- 3.2 However, like much of the rest of the economy, the Covid-19 pandemic has had a massive impact on the attraction. The board took the decision to close on Thursday 19th March, ahead of the government mandated lockdown announced on 23rd March. In addition, the combination of the fact that the first reported UK cluster of Covid-19 cases was centred around Brighton & Hove, plus two major storms on consecutive weekends, meant that February was also a very poor month for visitor numbers, down 50% on what was budgeted.
- 3.3 Upon taking the decision to close, the i360 board tested cashflow against various staffing scenarios. All of these scenarios showed the attraction running out of cash quite quickly. In the end, the government announced the furlough scheme for staff that are temporarily laid-off, which has been of a lot of assistance to the attraction and has meant that the cashflow situation is not as urgent as it was, but it remains the case that the i360 has fixed costs it cannot avoid, and no source of income.
- 3.4 The lockdown has taken place over weeks of good spring weather, when the i360 would expect to make significant income. Furthermore, even as the government does move towards easing the lockdown, it is uncertain whether the visitor economy will be prioritised. Even if that sector does come back strongly, it is still expected that social distancing measures will be in place, that will limit numbers in the pod, the shop and the restaurant: the main income drivers for the i360. However, in discussions with the i360 board, they have expressed optimism that they do have space for good social distancing, and if they are allowed to open in July and August they would benefit from 'staycation' tourism and start to see income coming back quickly in what is the two most lucrative months of the year (about 30% of annual turnover is normally achieved in July and August).

#### **The Current Cashflow Situation at the i360**

- 3.5 The i360 board has shared their existing cashflow with the city council. They have fixed costs, including around keeping on a small number of non-furloughed employees and utilities bills. They have also provided updated figures based on the revisions to the furlough scheme, which suggest that in the event of lock down continuing through the summer they would obviously face a cash shortfall.
- 3.6 This cashflow does not take into account payment of any element of the loan (and linked interest) to the city council.
- 3.7 In addition, it needs to be noted that the council agreed a reduced loan payment of £612,000 in December 2019. In the end the city council received £462,000 from the i360 – a shortfall of £150k. This was because the amount the board said they could pay was predicated on receiving back a large financial deposit that was being held by World Pay, for card transactions. This deposit took longer than expected to be released to the board, and by the time it was the challenges

during February had meant the cashflow situation was such that the money could not be released to the city council.

- 3.8 Given the financial and visitor number situation, officers have not progressed the loan restructure agreed in December 2019 as this was based on agreeing improved visitor number targets, impossible in the present environment. Discussions have commenced on the transfer of the LEP loan to the city council (at no cost to the council), but have also not been able to be completed due to time pressures around the covid-19 crisis.
- 3.9 If the i360 were to become insolvent then the city council would have to enforce its step-in rights under the funding agreement. As set out in the December 2019 P&R report, Avison Young has done has been to look at whether it would be in the council's financial interest to exercise its step-in rights under the present loan agreement and take control of the attraction. Their report set out several reasons why such action would not be advisable, and the advice is that the council should seek to avoid enforcement options. The asset benefits from commercial and maintenance arrangements that could be terminated as a result of an insolvency or step-in by the city council, and there would be a loss of value to the asset that is likely to be worse than restructuring the loan. Furthermore, as the directors of the i360 are operating the asset in way that substantially meets the requirements of the city council and are being co-operative, there is currently no clear rationale to pursue an enforcement strategy. The advice from Avison Young was the same as they would give to a commercial lender in similar circumstances, which gives the city council a degree of reassurance that it is in compliance with State Aid laws.

#### **Proposed Financial Support for the i360**

- 3.10 Aware that the i360 would face a severe challenge to its financial resilience in this difficult environment, officers suggested that the i360 board clearly articulate what the attraction needs to remain operational. This was with a view to understanding whether it might be financially advantageous for the city council to make concessions to keep the attraction viable rather than allow it to fail and then have to step in and take control of a distressed asset with the addition costs and loss of goodwill from staff and suppliers that that would entail. Officers have discussed with the i360 what support might be needed, and compared this to their cashflow. However, as set out above, the exact nature of the financial impact on the i360 and therefore the support the attraction might need is dependent on how the recovery process proceeds.
- 3.11 The possible short-term package of support that could keep the i360 a viable operation would need to as a minimum include measures to defer loan payments at this time. So may include:
- Agreeing to defer the £150,000 that was not received as part of the December 2019 payment and adding it to £880,304 that was agreed to be deferred by P&R committee that month, on the same terms.
  - Agree to defer all loan payments due in June and December 2020.
- 3.12 As set out above, the i360 are confident that if the visitor economy reopens and bounces back quickly then they may not need any further support beyond deferral of loan payments, and they have not made any formal request for further

support. But if the lockdown were to continue, or recovery were to be slower than expected, then the i360 would potentially need access to further cashflow support to remain solvent. However, that is not being requested at this time.

- 3.13 If the visitor economy does return to strength quickly, and the i360 makes good income, then it is proposed that any cash over and above that necessary to retain a strong cashflow position is paid to the council. This would be similar to the 'cash-sweep,' principle of the loan restructure agreed in December 2019. It will not be a legally binding obligation on the i360 as the cost of agreeing amendments to the loan agreements would be disproportionate to the likely income the Council would receive but if recommendation 2.2 is agreed, officers will write to the board making it clear that this is our expectation. Officers are confident that the i360 board will be keen to retain the good relationship with the Council, particularly as we still need to agree terms of the restructure previous agreed by P&R. Officers will also expect the board to continue to operate on an open book basis and share their cashflow with the Council.
- 3.14 The December 2019 P&R committee agreed to the establishment of a cross-party Member Working Group around the i360. A first meeting of that group was held on 03/06/2020 to discuss the impact the Covid-19 crisis has had on the i360's finances, and what steps the i360 are taking to plan for reopening. At that meeting, members expressed a desire for closer oversight of the i360's operation and finances. It is therefore proposed that the Member Working Group meets monthly with the i360 management and board, and receives regular detailed information around the performance and financial position of the attraction. That way, members will get a better understanding of the steps being taken to get the attraction back to a financially sound footing.
- 3.15 Members also wanted the i360 board to ensure it has examined all government financial support, including government backed loans. The city council cannot require that such a loan is taken out, as that is a decision for a lender and consideration needs to be given to the council's position as primary lender. But they will be encouraged to explore options such as the 'bounceback' loans.

#### **4. ANALYSIS & CONSIDERATION OF ANY ALTERNATIVE OPTIONS**

- 4.1 Section 3.9, above, sets out why the city council enforcing its step-in rights under the funding agreement has not been advised by Avison Young.

#### **5. COMMUNITY ENGAGEMENT & CONSULTATION**

- 5.1 As identified in the December P&R report, the i360 has received a wide range of supportive statements from local businesses, charities and other organisations. Businesses have focussed on the beneficial impact on tourism to the city and the improvements made to a previously run-down part of the seafront.
- 5.2 The council is due to receive 1% of ticket sales in perpetuity to spend on local initiatives with about 25% of this sum allocated to fund part of the landscaping works and discussions continue with local organisations about how to spend the remainder.

## 6. CONCLUSION

- 6.1 The full impact of the Covid-19 crisis on the i360 cannot yet be quantified. The recent economic impact study released by the i360 showed that it is an important piece of the city's visitor economy infrastructure, and letting it fail would mean we would have a closed attraction on the seafront for a number of months at a time when we would be trying to restart the city's visitor economy.
- 6.2 However, there are a number of businesses and attractions that need help and cannot be supported with the council's limited resources. The case for supporting the i360 in particular is more than about the wider economic reasons: It is about protecting council finances. If the i360 were to fail then the cost of getting it operational again and the loss of future loan payments would outstrip any concessions made now.

## 7. FINANCIAL & OTHER IMPLICATIONS:

### Financial Implications:

- 7.1 The i360 Ltd, like the whole of the visitor economy has been severely financially impacted by the pandemic. The organisation has minimised its costs during the lockdown period including utilising the nationally available government financial support. However, with no admission income until the attraction can reopen and the potential for a longer period of restricted passenger numbers, the company will have limited cash surpluses.
- 7.2 The recommendation to defer up to 100% of the June and December 2020 loan repayments will support the i360 Ltd to recover from the pandemic and therefore improve the prospect of the council receiving loan repayments in the future. The revised loan agreement approved at Policy and Resources committee in December 2019 has yet to be finalised but once agreed will support the ongoing operation of the attraction.
- 7.3 Deferring payments will have a cashflow impact on the council; at present the council is keeping its cash investments fairly short term to support liquidity and as a result receives very low levels of interest. Therefore, the investment income lost as a result of this deferment is considered immaterial in the current financial climate.
- 7.4 The December 2019 loan repayment from the i360 was £150,000 lower than expected and has therefore increased the outstanding debt; the total debt including deferred payments and accrued interest to 31 March 2020 is £38.903m

*Finance Officer Consulted: James Hengeveld*

*Date: 08/06/20*

### Legal Implications:

- 7.5 The options for enforcing the council's security were set out in the report which went to Policy Resources & Growth Committee in June 2018.
- 7.6 Loan arrangements such as this comply with state aid law if they meet the market economy operator principle (MEOP). The council is required to act in a

similar manner to a commercial investor in the same circumstances. As set out in the body of the report it is lawful to defer the December and June payments as a commercial lender would do this in response to the pandemic.

- 7.7 In order to protect its position, the council will send a reservation of rights letter to i360 as it has in relation to previous deferrals. The Council continues to take external legal advice in relation to the loan arrangements.

*Lawyer Consulted:*

*Alice Rowland*

*Date: 09/06/20*

Equalities Implications:

- 7.8 The i360 is accessible throughout to people with disabilities and has improved access to the seafront lower promenade by the building of a new lift to the east. Unisex toilets are open to members of the public who are not using the centre or visiting the attraction. The i360 has introduced a range of concessions for local residents and free tickets for local schools. The i360 is a living wage employer and does not offer zero hour contracts. There is an apprenticeship scheme in place and training opportunities for staff at all levels of the organisation.

Sustainability Implications:

- 7.9 The i360 is a low energy user, with energy recovery when the pod is descending. The installation of heat pumps provides air heating and cooling in the pod and main building and provides an estimated 30% of the total thermal heating energy use. All electricity is purchased from renewable energy sources. Grey water and rainwater recycling has been included. Purchasing policies are based on sourcing environmentally friendly local products particularly the Sky Bar, café and restaurant.

Brexit Implications:

- 7.10 None identified.

Any Other Significant Implications:

- 7.6 None identified.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

None

### **Background Documents**

1. [Brighton i360 Economic and Social Impact Report.](#)